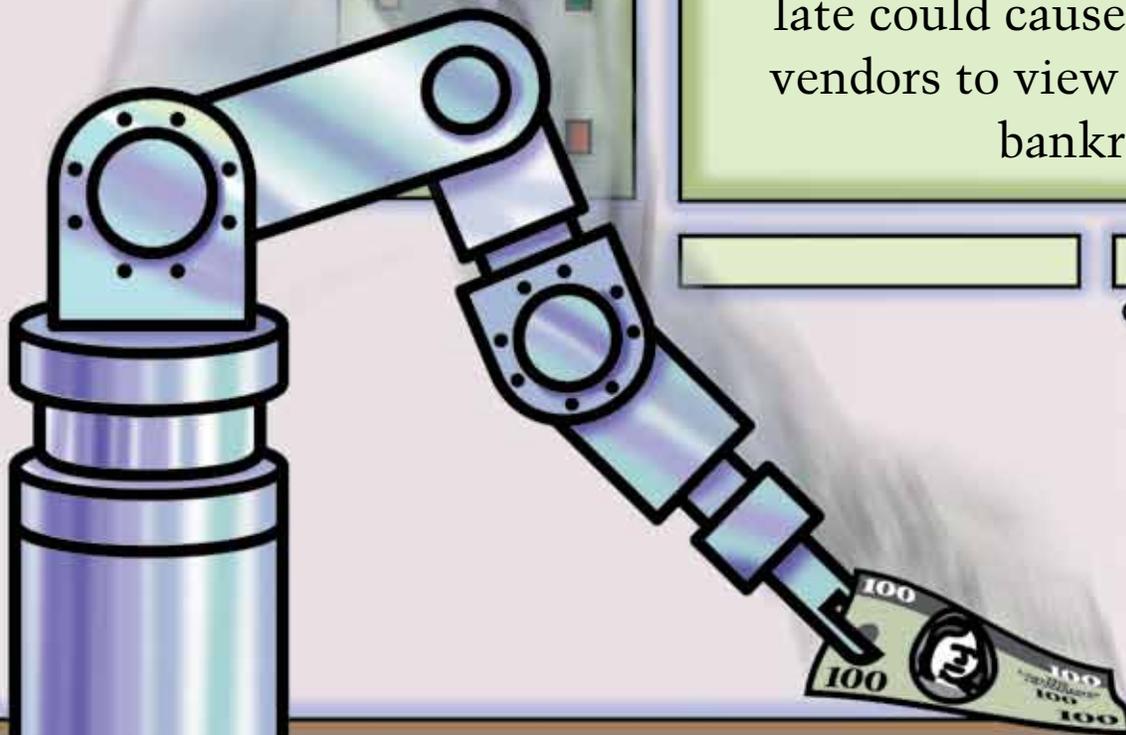


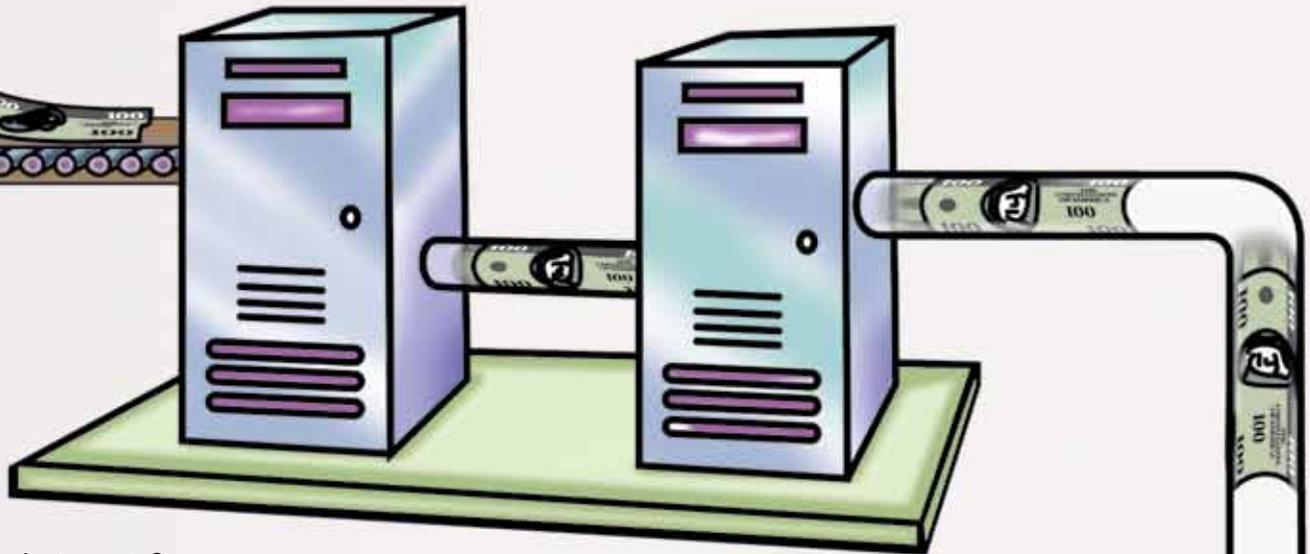
A Reprint from *Tierra Grande*

Automation Pays

These days, real estate firms are looking for opportunities to reduce costs and improve control of cash flow. A smooth-functioning accounts payable (A/P) system is a critical element in any effort to conserve cash. Consistently paying invoices late could cause banks and vendors to view a firm as a bankruptcy risk.

By Gerald Klassen





Why Automate?

A/P is often viewed as a back-office function that is not essential for real estate firms. Technology and automation are seen as even less important. More attention is paid to gross profit on sales than to the labor costs required to process invoices for the numerous daily transactions that keep a business functioning. As a result, A/P processing costs are likely to be higher than they should be. Many real estate firms rely on the antiquated manual systems they have always used.

The good news is that A/P automation may be a “quick win” for managers trying to enhance profitability and improve visibility into cash flows. David Srou, managing director of Real Foundations, a full-service management consultancy firm focused on the real estate industry, says that “automating A/P and disbursements represents one of the greatest opportunities for businesses today. The highest potential for head count reduction and cost savings is in automating disbursements.”

Few foreign businesses make payments via paper checks. Instead, they make virtually all disbursements electronically. U.S. businesses are unique in their continued dependence on outmoded paper checks. New technologies for electronic disbursement processing can fix this wasteful process.

The Aberdeen Group benchmarked invoice processing costs for over 150 firms in a 2007 report called “Accounts Payable Transformation: Better, Faster, Cheaper.” Results showed that it costs an average of \$13.53 per invoice to process invoices manually. A more important finding illuminated the wide disparity between the best- and worst-performing firms (see table).

The best-in-class firms engaged in a combination of outsourcing and automation to achieve their gains. Outsourcing produces savings by transferring portions of the A/P process to service bureaus with specialized staff and technology. These bureaus have economies

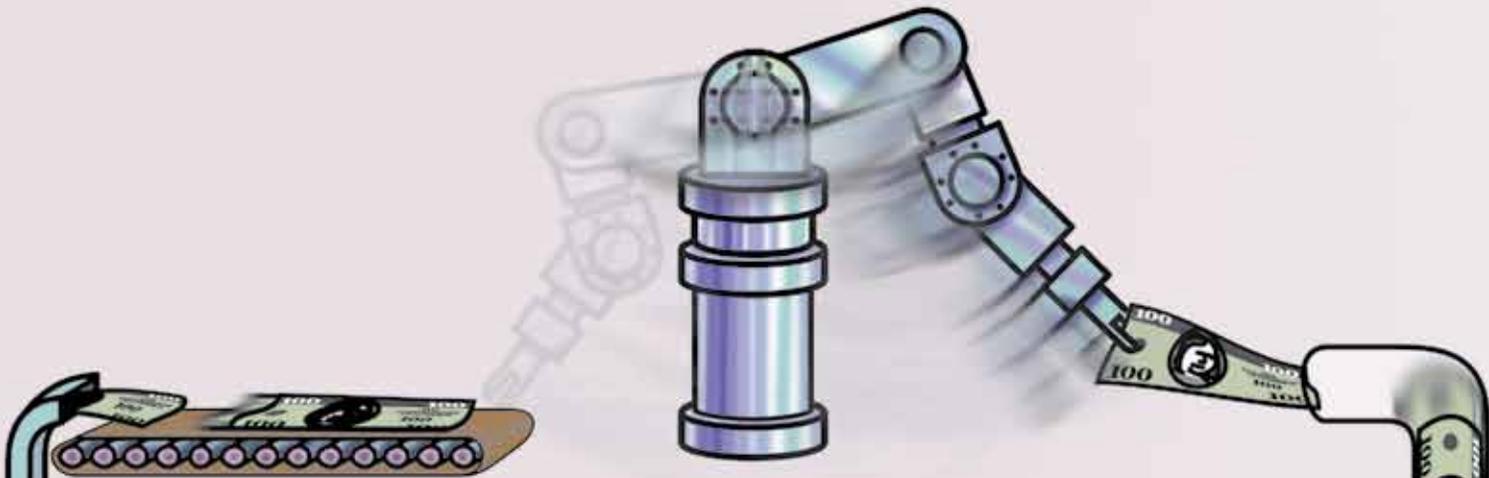
A/P Benchmark Performance

Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20 percent of aggregate performance scorers	\$2.00, 8.6 days to process single invoice
Industry Average: Middle 50 percent of aggregate performance scorers	\$8.36, 17.4 days to process single invoice
Laggard: Bottom 30 percent of aggregate performance scorers	\$29.38, 20.3 days to process single invoice

Source: Aberdeen Group, December 2007

of scale that enable them to perform tasks at a lower cost than the all-in costs of a typical business.

Automation also produces significant savings for firms. Processing invoices electronically costs 33 to 41 percent less than processing them manually.



The Aberdeen report found that time and money are the two main drivers for A/P automation. Automation reduced the time necessary for posting expenses into internal systems. When expenses are posted sooner, management is better able to manage cash flow and compare actual performance to the budget.

The cost savings sought were for items such as labor, administration and technology support. Srouer asserts that accounts payable personnel spend "30 percent to 50 percent of their time processing disbursements." This represents a significant expense for a nonvalue-added activity. When automation is introduced, labor can be eliminated or redirected to value-added tasks.

Anyone who uses online banking for their personal finances is already familiar with the fundamentals of A/P automation. Online bill-pay services give users the ability to receive monthly bills from vendors in electronic format through a bank's website. This is similar to automated A/P systems that provide digitized invoices for review and approval. After reviewing a bill, users can schedule payments to be made when sufficient funds will be available in the account.

How Does It Work?

Automated A/P can be broken into five core process areas:

- *Procurement*: Online catalogs, online purchasing, discounts through order consolidation.
- *Invoice Processing*: Electronic invoicing, digitizing paper invoices, invoice indexing and coding.
- *Approval Workflow*: Verification, reconciliation, rules-based routing of invoices to approvers, e-mail notifications of invoices ready for approval.
- *Accounting System Integration*: Import invoice data into the accounting system, upload invoice adjustments from the accounting system. If payment made using accounting system, upload payment details to A/P system; if payment made using A/P system, upload payment details from bank system into accounting system.
- *Disbursements*: Make payments to vendors using bank's payment system or alternative payment forms, including Automated Clearing House (ACH), Electronic Funds Transfer (EFT)/wire, credit card, paper check.

Preparing for Automation

A firm begins the transition to automated A/P by:

- selecting an online marketplace or procurement service through which it can place orders for goods;
- selecting an invoice processing service bureau to receive and process invoices from vendors or creating a centralized receiving location within the organization;
- notifying vendors of the new address for submitting invoices (vendors can submit electronic or paper invoices);
- scanning and indexing paper invoices by attributes such as vendor, property and amount, and
- giving employees access to the A/P automation server so they can view scanned invoices from any location.

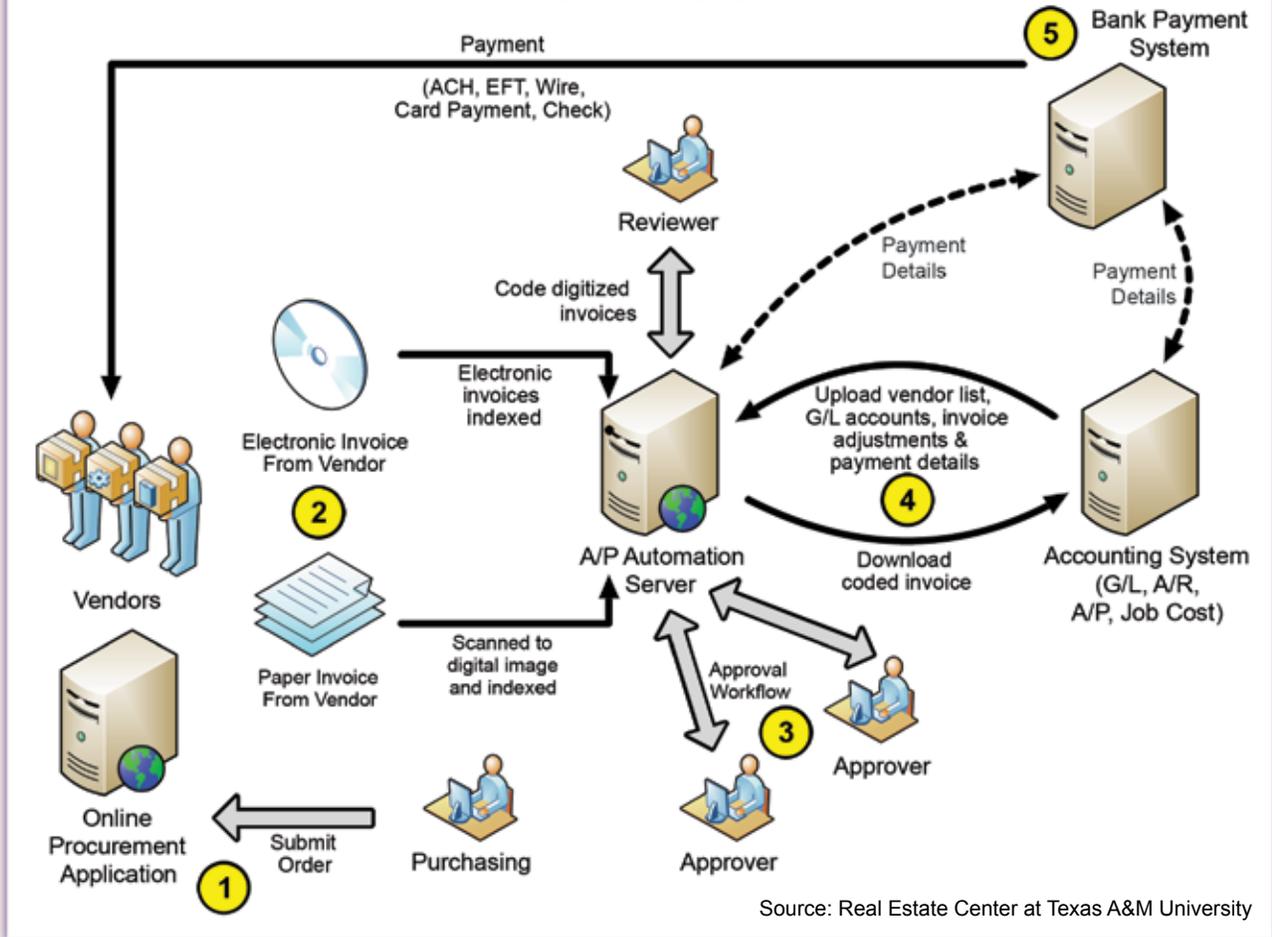
Automated A/P Process

Once the automated system is in place, the A/P process generally follows these steps (see figure):

- 1 Purchasing Department places orders through the online procurement application or directly with vendors.
 - 2 The processing location receives all invoices from vendors and scans the paper invoices. A reviewer indexes the digitized invoices so they can be routed to authorized individuals for coding and approval.
 - 3 The rules-based approval workflow sends e-mail notifications to approvers letting them know invoices are ready for review and approval.
 - 4 The approved invoices are downloaded into the A/P and general ledger (G/L) modules of the accounting system so the two systems are automatically synchronized.
- Adjustments made to an invoice in the accounting system are uploaded to the A/P automation server so the two systems remain synchronized.
 - If a payment file is generated from the accounting system and transmitted to the bank to schedule disbursements, payment details are uploaded to the A/P automation server. If a payment file is generated from the A/P automation server and transmitted to the bank to schedule disbursements, payment details are downloaded to the accounting system.



A/P Automation Overview



- 5 The bank issues payments to vendors in various formats including ACH, EFT/wire, credit card or paper check.

For owners of small real estate firms, this process may seem overwhelming or beyond what they perceive as feasible. But even the smallest real estate firm can benefit from automated disbursement processing by partnering with their bank. Most large commercial banks offer a disbursement service to their commercial customers.

Larger real estate firms looking at full A/P automation programs should focus on products specifically created for the real estate industry.

For more information about A/P solutions for the real estate industry, see an expanded version of this article at <http://recenter.tamu.edu/pdf/1896.pdf>. ➔

Klassen (gklassen@tamu.edu) is a research analyst with the Real Estate Center at Texas A&M University.

THE TAKEAWAY

Real estate firms of all sizes should investigate accounts payable automation to reduce costs and improve cash management.



MAYS BUSINESS SCHOOL

Texas A&M University
2115 TAMU
College Station, TX 77843-2115

<http://recenter.tamu.edu>
979-845-2031

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Tierra Grande (ISSN 1070-0234) is published quarterly by the Real Estate Center at Texas A&M University, College Station, Texas 77843-2115. Subscriptions are free to Texas real estate licensees. Other subscribers, \$20 per year. Views expressed are those of the authors and do not imply endorsement by the Real Estate Center, Mays Business School or Texas A&M University. The Texas A&M University System serves people of all ages, regardless of socioeconomic level, race, color, sex, religion, disability or national origin. Photography/Illustrations: Bob Beals II, p. 1, 2, 3, 4.